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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

PERIOD ENDED SEPTEMBER 30, 1991

PLEASE RETURN

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

PERIOD ENDED SEPTEMBER 30, 1991

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APPOINTIVE OFFICIALS

Zoann Attwood, Lottery Director

L. John Onstad, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Ward Shanahan - Chairman	Helena	January 1, 1994
Becky Erickson	Glasgow	January 1, 1993
Bill Ware	Helena	January 1, 1993
Gary Rebal	Great Falls	January 1, 1994
Dwaine Iverson	Shelby	January 1, 1995

LOTTERY LIAISON COMMITTEE

Senator Bob Pipinich	Missoula
Senator Bernie A. Swift	Hamilton
Representative Linda Nelson	Medicine Lake
Representative Norman Wallin	Bozeman

REPORT DISTRIBUTION

According to Section 23-5-1007(7), MCA, copies of this report must be distributed to the following individuals.

Stan Stephens, Governor

Bob Marks, Director, Department of Administration

Scott Seacat, Legislative Auditor

Joe Mazurek, President of the Senate

Hal Harper, Speaker of the House

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House have requested that this report be distributed to the Revenue Oversight Committee. In addition, the President of the Senate has requested this report be distributed to the Business and Industry Committee, the Education Committee, and the Finance and Claims Committee. The Speaker of the House has requested that this report be distributed to the specific members of the Business and Economic Development Committee and the Education and Cultural Resources Committee.

Members of the Revenue Oversight Committee are as follows:

Representative Dan Harrington	Senator Dorothy Eck
Representative Bob Gilbert	Senator Thomas E. Towe
Representative Marian W. Hanson	Senator Fred R. VanValkenburg
Representative Robert R. Ream	Senator Robert Brown
Representative Ted Schye	Senator Bruce D. Crippen
Representative Mike Foster	Senator Thomas O. Hager

Members of the Business and Industry Committee are as follows:

J. D. Lynch, Chairman	John "Ed" Kennedy, Vice Chairman
Betty Bruski	Eve Franklin
Delwyn Gage	Tom Hager
Jerry Noble	Gene Thayer
Bob Williams	

Members of the Education Committee are as follows:

Chet Blaylock, Chairman	Harry Fritz, Vice Chairman
Bob Brown	Bill Farrell
Swede Hammond	Dennis Nathe
Dick Pinsoneault	Mignon Waterman
William Yellowtail	

Members of the Finance and Claims Committee are as follows:

Judy Jacobson, Chairman	Greg Jergeson, Vice Chairman
Gary C. Aklestad	Tom Beck
Esther Bengtson	Don Bianchi
Gerry Devlin	Harry Fritz
Swede Hammond	Ethel Harding
Bob Hockett	Tom Keating
Dennis Nathe	Larry Stimatz
Larry Tveit	Eleanor Vaughn
Mignon Waterman	Cecil Weeding

Members of the Business and Economic Development Committee receiving the report are as follows:

Bob Bachini, Chairman	Sheila Rice, Vice Chairman
Bob Pavlovich	

Members of the Education and Cultural Resources Committee receiving the report are as follows:

Ted Schye, Chairman	Ervin Davis, Vice Chairman

Stan Stephens
Governor

Zoann Attwood
Director

November 15, 1991

Montana Lottery Commission:

Revenues for the first quarter of fiscal year 1992 proved to be higher than anticipated. This was primarily because of two factors. Instant ticket sales of "EZ 2 LUV" and "Moose on the Loose" generated higher than expected sales during the months of July and August. And, the Lotto*America game experienced 2 jackpots exceeding $20 million during this quarter. Although Montana Ca$h sales fell below expectations, because of several consecutive jackpot hits, it is anticipated that the player base for this game will grow in the future quarters. Overall the quarter surpassed projections and net revenue totalled over $1.3 million.

The major highlight of the quarter was our participation at the Lewis and Clark County Fair in Helena and the Montana Fair in Billings. These events allowed us to reach many people who had never tried the Lottery's games and also gave us the opportunity to reintroduce our products to many lapsed players. The staff contributed many hours to these events and overall they were certainly considered a success.

Another major accomplishment during the quarter was the research conducted to prepare a baseline study of our players. Over 700 Montanans were interviewed as part of the study and 75.13% of those people interviewed approved of the Lottery. The study was designed to define our players and will be utilized to target our products and advertising toward this group.

New legislation became effective this quarter which requires the Lottery to transfer 1.6% of its net revenue to the Board of Crime Control and the remaining net revenue to the Office of Public Instruction. This resulted in over $20,000 being transferred to the Board of Crime Control and over $1.28 million transferring to the Office of Public Instruction.

Sincerely,

Zoann Attwood

Zoann Attwood
Director

ljd

Montana Lottery, 2525 N Montana Helena MT 59601 0547 (406) 444-LUCK FAX (406) 444-5830

MONTANA LOTTERY
BALANCE SHEET
SEPTEMBER 30, 1991

ASSETS	(Unaudited)
Cash	$ 358,913
Investment in Short-Term Investment Pool	826,801
Receivables (Net)	811,829
Inventories	135,304
Equipment	760,289
Other Fixed Assets	4,093
Accumulated Depreciation	(447,756)
Intangible Assets	140,358
Other Assets	11,824
Multi-State Receivable	530,037
TOTAL ASSETS	$ 3,131,692

LIABILITIES AND FUND EQUITY	
Liabilities:	
Accounts Payable and Accruals	$ 589,099
Lottery Prizes Payable	1,041,791
Due to Other Funds (Note 2)	1,303,171
Deferred Revenue	12,675
Compensated Absences Payable (Note 1)	110,486
Allowance for Ticket Returns	74,470
	$ 3,131,692
FUND EQUITY:	
Retained Earnings Unreserved	-0-
Total Fund Equity	-0-
TOTAL LIABILITIES AND FUND EQUITY	$ 3,131,692

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PERIOD ENDED SEPTEMBER 30, 1991

	Quarter Ended September 30, 1991 (Unaudited)
REVENUES:	
Net instant ticket revenue	$ 2,427,701
Lotto*America ticket revenue	2,962,272
Montana Ca$h ticket revenue	1,302,243
License and permits	1,600
Interest Earnings	38,731
Total Revenues	$ 6,732,547
Cost of Ticket Revenue	
Instant ticket prize expense	(1,336,069)
On-line ticket prize expense	(1,925,992)
Retailer commission	(388,248)
Cost of tickets sold	(132,649)
On-line Vendor Fees	(941,068)
Net Operating Revenue	$ 2,008,521
OPERATING EXPENSES:	
Advertising	$ 120,213
Amortization	49,585
Audit Fees	29,330
Communications	21,931
Contractual Services	59,865
Depreciation	29,052
Management Service Fee	12,158
Multi-State Dues	33,040
Other	14,893
Personal Services	275,407
Repairs and Maintenance	19,937
Supplies and Materials	11,511
Travel	3,659
Utilities and Rent	22,896
Total Operating Expense	$ 703,477
Operating Income	$ 1,305,044
NONOPERATING EXPENSES	
Interest Expense	-0-
Total Nonoperating Revenues (Expense)	-0-
Income before Operating Transfers	1,305,044
Operating Transfers In (Out)	(1,303,171)
NET INCOME (LOSS)	$ 1,873
Retained Earnings, Beginning of Period (Note 5)	(1,873)
RETAINED EARNINGS, END OF PERIOD	-0-

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
COMPARATIVE STATEMENT OF ACTUAL
VS BUDGETED REVENUES AND EXPENDITURES
PERIOD ENDED SEPTEMBER 30, 1991
(Unaudited)

	Budgeted Fiscal Yr. July 1,1991 - June 30, 1992	Actual Qtr. Ended Sept. 30,1991 (Unaudited)	Actual as a Percent of Budget (%)
REVENUES:			
Net instant ticket revenue	$ 9,000,000	$ 2,427,701	26.97
Net Lotto*America revenue	11,295,000	2,962,272	26.23
Net MT Ca$H revenue	5,707,000	1,302,243	22.82
License and permits	4,000	1,600	40.00
Interest Earnings	68,000	38,731	56.96
Total Revenues	$26,074,000	$ 6,732,547	25.82
EXPENSES:			
Prizes - Instant Ticket	4,960,800	1,336,069	26.93
Prizes - On-line Games	7,650,900	1,925,992	25.17
Retailer Commissions	1,525,100	388,248	25.46
Ticket Cost - Instant Games	520,000	132,649	25.51
Ticket Cost - On-line Games	3,416,748	941,068	27.54
Total Cost of Ticket Revenue	$18,073,548	$ 4,724,026	26.14
Advertising	$ 642,596	$ 120,213	18.71
Amortization	189,944	49,585	26.11
Audit Fees	60,000	29,330	48.88
Communications	73,867	21,931	29.69
Contractual Services	367,915	59,865	16.27
Depreciation	118,000	29,052	24.62
Management Service Fees	97,789	12,158	12.43
Multi-State Dues	33,040	33,040	100.00
Other	22,204	14,893	67.07
Personal Services	1,115,045	275,407	24.70
Repairs and Maintenance	84,356	19,937	23.63
Supplies and Materials	52,136	11,511	22.08
Travel	39,446	3,659	9.28
Utilities and Rent	94,998	22,896	24.10
Total Operating Expenses	$ 2,991,336	$ 703,477	23.52
NET REVENUE	$ 5,009,116	$ 1,305,044	26.05

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
SEPTEMBER 30, 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-5-1001, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and prepare financial reports.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the governmental Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Investment in Short-Term Investment Pool. The Short-Term Investment Pool (STIP) is a pool of investments, maintained by the Montana Board of Investments, with maturities of one year or less. The Lottery's purchase of units in STIP totalled $826,801 as of September 30, 1991. These funds are highly liquid and may be purchased or sold daily. Interest earnings accrue daily and income is distributed monthly. STIP interest earnings as of September 30, 1991 totalled $5,691.

Receivables. Receivables totalling $811,829 represent amounts owing the Lottery for purchased tickets. An allowance for doubtful accounts is usually based on historical perspective. Because of immaterial uncollectible account balances, an allowance for doubtful accounts has not been established.

Receivables include a $3,158 adjustment in retailer commissions related to estimated ticket returns.

Inventories. Inventories consist of merchandise, Instabuck and supplies inventories. Merchandise inventory includes lottery tickets valued at $120,740 stored in the warehouse and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold when sold. After game end and awaiting disposal, unsold tickets are charged to cost of tickets sold.

Merchandise inventory includes a $1,360 adjustment related to estimated ticket returns.

Supplies inventories include paper supplies, ticket dispensers, premiums and point-of-sale materials having an initial value of $5,000 or more. At quarter end, supplies inventories totaled $14,564. These inventories are also recorded at cost using the specific identification method.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's payable for compensated balances is detailed below.

Balance June 30, 1991	Net Leave Earned/Used	Balance September 30, 1991
$99,549	$10,937	$110,486

Allowance for Ticket Returns. This allowance represents a liability as of September 30, 1991 for estimated ticket returns. The allowance for ticket returns was decreased by $55,281 from the quarter ending June 30, 1991. This is an estimate based, partially, on actual returns received after the end of the quarter. Conversely, ticket revenue has been increased by approximately $55,281 for the quarter ended September 30, 1991. Prize expense has been increased by approximately $30,579. Commissions and cost of goods sold have also been increased for expenses associated with this change in allowance.

Revenue Recognition. Lottery instant ticket sales are recorded as revenue based on ticket deliveries to the retailers. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Lottery on-line ticket sales are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Free Tickets. The Montana Lottery's instant games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free tickets distributed approximated $329,423 for the quarter ended September 30, 1991.

Instabucks. Instabucks are a Lottery coupon good, upon redemption, for a lottery ticket. Instabucks, used to stimulate lottery ticket sales, are usually given away for promotions, retailer clerk incentive programs, and advertising trade-outs. The lottery tickets distributed resulting from Instabuck redemptions are reflected as a reduction in revenue. The related prize expense and ticket cost are reclassified as an advertising expense. For the quarter ended September 30, 1991, Instabuck redemptions resulted in a revenue reduction of $40,038 and a prize expense reclassification of $22,081.

Prizes. Expenses for instant prizes are recorded based on the predetermined prize structure for each game. No prize expense is recorded for free tickets distributed.

Expenses for on-line prizes are recorded based on the predetermined prize structure for the on-line game.

Commissions. Section 23-5-1016(10), MCA provides retailers a commission on instant and on-line tickets or chances sold. The Lottery commission established this commission at 5% of the face value of instant tickets delivered to the retailers and on the amount of tickets sold for each on-line drawing.

The commission on tickets sold to the retailers gives the retailer $15 per book of 300 tickets and 5 cents for each on-line ticket sold. For the quarter ended September 30, 1991, commissions totaled $388,248.

Retailers can receive bonus commissions on tickets sold based on incremental sales of instant tickets. During the quarter ended September 30, 1991, retailers earned bonus commissions totaling $34,770.

Amortization. The Instant Lottery System (ILS) software, classified as an intangible asset, is being amortized over a period of five years using the straight line method. The Media Drop-In Productions, Inc. contract for the use of ten lottery advertisements, is also classified as an intangible asset. This contract is being amortized over a period of 3 years using the straight line method.

2. DUE TO OTHER FUNDS

The account "Due to Other Funds" totalling $1,303,171 reflects $1,282,320 payable to the State Superintendent of Public Instruction and $20,851 payable to the Board of Crime Control for the period ended September 30, 1991.

3. PAID PRIZES

Section 23-5-1027 MCA states "A minimum of 45% of the money paid for tickets or chances must be paid as prize money".

From July 1, 1991 through September 30, 1991 prizes paid are detailed as follows:

High-tier	$ 146,100
Low-tier	1,165,769
On-line	1,925,240
	$3,237,109

High-tier prizes reflect instant ticket prizes greater than $50 paid through Lottery headquarters. Low-tier prizes of $50 or less are paid by the retailer or Lottery headquarters.

Prize expense is recorded based on the predetermined prize structure percentage for each game. For the quarter ended September 30, 1991, the prize expense of $3,262,061 is 48.74% of net Lottery ticket revenue of $6,692,216.

When recording the prize expense, a corresponding liability for high-tier prizes is also recorded. The relationship between prize expense, prizes paid and the change within prize liability is illustrated below:

July 1 through September 30, 1991		Percent of Net Lottery Ticket Revenue (Unaudited)
Prizes paid	3,237,109	48.37
Instabucks	(22,081)	(.33)
Increase (decrease) in prize liability	47,033	.70
Prize expense	$ 3,262,061	48.74

4. TRANSFER TO STATE SUPERINTENDENT OF PUBLIC INSTRUCTION AND BOARD OF CRIME CONTROL

Section 23-5-1027(3), MCA states "that part of all gross revenue not used for payment of prizes, commissions, and operating expenses is net revenue except for the amount required to be paid under subsection (5) net revenue and must be paid quarterly from the enterprise fund to the State Superintendent of Public Instruction for distribution as equalization aid to the public schools of Montana..." Section 23-5-1027(5) MCA states "For the fiscal year beginning July 1, 1991, 1.6% of the net revenue derived under subsection (3) must be paid quarterly to the Board of Crime Control." For the quarter ended September 30, 1991, the net revenue payable to the State Superintendent of Public Instruction totaled $1,282,320 and the net revenue payable to the Board of Crime Control totalled $20,851.

5. DEFICIT RETAINED EARNINGS

According to the law, the Lottery's net revenue must be transferred quarterly to the State Superintendent of Public Instruction. This transfer should result in a zero retained earnings balance. Because of recording a fiscal year 1990-1991 expenditure after calculation of the transfer for the quarter ending June 30, 1991, the beginning retained earnings balance is ($1,873) rather than zero.

6. MULTI-STATE LOTTERY RECEIVABLE

As a member of the Multi-State Lottery Association (MUSL) and the Lotto*America game, the Lottery is required to contribute to a prize reserve fund maintained by MUSL. This fund is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund, as well as the interest earned on the Lottery's share of the fund, would be returned to the Lottery upon leaving MUSL (assuming that no unanticipated prize claims have been paid).

The Lottery contributes to the reserve fund through the 45% set-aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve fund accumulated since the start of the Lotto*America game. The Lottery made this payment in full as of June 1990, through an additional 2% of drawing revenue rather than making a lump sum payment. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game. Contributions to this fund total $489,825, interest earnings equal $40,212 for a total of $530,037 as of September 30, 1991.

7. GAMES

Currently, the Montana Lottery games are instant ticket games and two on-line game referred to as Lotto*America and Montana Ca$h. Instant ticket games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize. The Lotto*America game allows players the chance to win a minimum pari-mutual jackpot of $2 million. Players select 6 numbers from a field of 54 and must match at least 4 out of 6 to win a prize. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Montana Ca$h game allows players the chance to win a minimum pari-mutual jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5.00 and 4 of 5 wins $200. The drawing is held weekly on Saturday night. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

8. GAMING SUPPLIER CONTRACTS

Tickets. On March 9, 1990, the Montana Lottery entered into a one year contract with Dittler Brothers, Inc. to purchase lottery tickets.

The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure. The contract requires payment within 30 days of ticket receipt.

Dittler Brothers, Inc., as the vendor, delivered a $500,000 performance bond covering the contract term. The Company also provided an errors and omissions policy covering an ultimate net loss of $4,500,000.

This contract may be terminated when termination is in the best interest of the Lottery with proper notification to Dittler Brothers, Inc.

Computer Hardware and Software. The Lottery contracted with Scientific Games, Inc. on February 25, 1987, to purchase a used Stratus computer. The computer hardware and software cost $381,243. This contract also covered the acquisition of an Uninterruptable Power Supply (UPS) system for $40,551. The UPS system protects the computer against electrical power surges and failures.

The Lottery signed a separate agreement with Stratus Computer, Inc. on June 2, 1987, for maintenance of the Stratus computer hardware and software. Monthly maintenance totals $4,702.

On July 28, 1987, the Lottery signed a second agreement with Stratus Computer, Inc. regarding the Stratus software license. Under this contract, Stratus Computer, Inc. grants the Lottery a "nonexclusive, nontransferable license" to use the software of the Stratus computer. The proprietary rights and title of the software remain with Stratus Computer, Inc.

Lottery Software. On February 25, 1987, the Lottery agreed to purchase the Instant Lottery System (ILS) software package for $840,400. This agreement provides the Lottery a "perpetual, nonexclusive, nontransferable license to use the software solely for the Lottery's own use". The contract allows the Lottery to make 36 monthly payments of $23,344.44 with no interest. The first payment was due June, 1987.

Under the Extension and Second Amendment of Instant Ticket Contract dated January 5, 1989, these monthly payments were reduced to $11,672.22 commencing with the November 1988 payment. Upon expiration or termination of the Instant Ticket Contract with Scientific Games, Inc. on March 8, 1990, the payments were reinstated to $23,344.44 until the balance is paid in full.

On-line Services. On August 30, 1989, the Lottery contracted with Control Data Corporation to provide on-line terminals, central computers, telecommunications network, and training for a five year period. The contract, with an effective date of November 9, 1989, provides that payment will be a percentage of sales, which for the first year of the contract will be 25% of the first $250,000 of weekly sales, and 19% for sales between $250,001 to $500,000. The percentage decreases with higher weekly sales.

On November 9, 1990, the Lottery and Control Data Corporation entered into the second year of the on-line contract. Payment during the second year of the contract is based on 22% of the first $500,000 of weekly sales. This percentage decreases with higher weekly sales.

Control Data Corporation delivered a $1,980,000 performance bond covering the second year of the contract term.

9. PRIZE ANNUITIES

During fiscal year 1989, the Montana Lottery awarded four Big Spin Jackpot prizes totalling $5,000,000. The Lottery made the initial payments to the winners in the amount of $253,088 and on September 26, 1988, the Montana Lottery awarded annuities in the amount of $2,350,180 to Western National Life. Through these annuities, Western National Life makes the remaining payments to the Big Spin Jackpot winners. As of September 30, 1991, the contingent liability for future prize payments funded through the purchase of annuities was $3,987,647.

10. LOTTO*AMERICA JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America game are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the anniversary date of the win.

On January 13, 1990, the Montana Lottery awarded its first Lotto*America jackpot prize totalling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990, the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $184,000 was made February 15, 1991. As of September 30, 1991, the contingent liability for future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds was $11,442,000.